

New IIT regulation

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China Raises Individual Income Tax Threshold to 3500yuan and the new edition of individual income tax law shall come into effect on 1st September 2011.

The Decisions on Revision of the Individual Income Tax Law of the P.R.C. (the Decisions) were adopted at the 21th meeting of the Standing Committee of the Eleventh National People's Congress. The revised Individual Income Tax (IIT) Law will take effect on 1st September, 2011. In line with the Decisions, the monthly standard deduction is raised from RMB2,000 to RMB3,500. Wages and salaries are taxed on the basis of the balance of taxpayer's monthly income after lump-sum deduction of expenses and by applying the 7-grade progressive rates. In the Decisions, the 7-grade progressive rates is from 3% to 45%, as shown in the table below, with the the lowest bracket reduced from 5% to 3%.

Taxable income	Non-Gross Taxable Income	UpTax (%)	RateSpeedy Deduction	Tax liabilities from Sep 2011	Current Liabilities	Tax Decrease	Increase
1,500	0-1500	3	0	45	125	80	
4,500	1501-4500	10	105	345	550	205	
9,000	4501-9000	20	555	1,245	1,425	180	
12,600	9001-35000	25	1,005	2,145	2,145	0	
35,000	9001-35000	25	1,005	7,745	7,375		370
55,000	35001-55000	30	2,755	13,745	13,125		620
80,000	55001-80000	35	5,505	22,495	21,625		870
90,000	80001-	45	13,505	26,995	25,625		1,370

Note: All figures in RMB per month.

According to the current PRC IIT Law, before the standard deduction of RMB2,000, the Chinese national individual tax payer is allowed to make deductions of social security contributions, including medical insurance, pension fund, and housing fund as arriving at his/her monthly income. Assuming the remuneration to a Chinese national individual is RMB7,000 per month and the above-mentioned social security contributions are applicable, under the current PRC IIT law, his/her PRC IIT under the employment arrangements equals $RMB391 = ((RMB7,000 - RMB1,557 \text{ (social security contributions)} - RMB2,000 \text{ (standard deduction available for Chinese national)}) \times 15\% \text{ rate (applicable tax rate)} - RMB125 \text{ (quick deduction)})$. The actual tax burden is 7.2%. While if revised IIT law applied, he/she shall be liable for RMB89 PRC IIT and the actual tax burden is 1.6%. From the current system therefore the PRC IIT withheld and paid out of monthly earnings for a person earning RMB7,000 per month would decrease by RMB302 per month when the new law comes into effect, a reduction of IIT by 5.6% of remuneration. The below table shows the tax comparison between current IIT law and the new IIT law, which will be effective from 1 September 2011.

Individual Income Tax (IIT) Calculation for Local Citizens

	Monthly Salary	Social insurance schemes	Income	Standard Deduction	Taxable Income	Tax Rate	Quick deduction	IIT payable	Tax Burden
Current IIT Law	7000	(1557)	5443	(2000)	3,443.00	0.15	(125)	391.45	7.2%
Revised IIT Law	7000	(1557)	5443	(3500)	1,943.00	0.10	(105)	89.30	1.6%

In addition, the current PRC IIT laws and regulations state that the expatriates who have no domicile in China but earn wages and salaries from China can enjoy an addition deduction of RMB2,800 per month. In other words, the expatriates are entitled for RMB4,800 (RMB2,000 + RMB2,800) standard deduction when arriving at its taxable income. In the Decisions, it does not mention if the standard deduction of 4,800yuan for expatriates will be remained unchanged or not, as following this same formula, the deduction should increase also by RMB1,500 per month. It is still pending for further notice when new individual income tax implementation law comes into effect on.